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The Viability of Economic Shock Therapy in Iraq

Robert Looney

A free market program was imposed on Iraq far sooner than the nation was prepared to exploit it. This author discusses why it was imposed, and why it may have already failed.

TWO QUOTATIONS SUMMARIZE THE POLARIZED VIEWS of development economics today. "If it all works out, Iraq will be a capitalist's dream,"[1] wrote the *Economist* last fall. "We suffered through the economic theories of socialism, Marxism, and then cronyism. Now we face the prospect of free-market fundamentalism,"[2] said Ali Abdul-Amir, Iraq's interim trade minister, a month later.

These quotations reflect the expectations and frustrations experienced by both the Americans and Iraqis over the future course of the country's economic system. For many in the Bush administration, the answer is quite simple: free markets, increased globalization, and reduced government interference in the marketplace—the basic neoliberal[3] economic agenda—are the ticket to rapid Iraqi economic recovery and prosperity. For many Iraqis, even some in key ministries, neoliberalism, especially in its "shock therapy" form, is just another reckless Western experiment imposed on the country for reasons that are unclear.

Even in the early summer of 2003, the neoliberal debates were coming to the fore:

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> The big debates will be between those in Washington who want to press ahead with a dogmatic neoliberal approach and those in the field who see the necessity often for political reasons, to go step-by-step, acknowledging a large amount of uncertainty about what institutional changes are necessary or even desired by the Iraqis. On the Iraqi side, advocates for the adoption of an Islamic economic system will be more and more vocal if the neoliberal reforms do not show quick dividends.[4]

The discussion below examines the evolution of neoliberalism in Iraq since the summer of 2003. What aspects of the neoliberal agenda were introduced into the country? What are their strengths and limitations? Based on this assessment, several conclusions are drawn concerning the applicability of the neoliberal reforms in the Iraqi context.

The Neoliberal Program

With Iraq's economy still shattered and little recovered eight months after the U.S. ouster of Saddam Hussein, the Coalition Provisional Authority (CPA) ordered a package of reforms reminiscent of the "shock therapy" programs carried out in the early to mid-1990s in many of the transition economies of central and eastern Europe. Overnight Iraq became the most open economy in the Arab world.[5]

While there had been persistent rumors that major free market reforms were contemplated, most observers were surprised at the extent to which they embodied key elements of the neoliberal agenda. As the *Economist* noted, "If carried through, the measures will represent the kind of wish-list that foreign investors and donor agencies dream of for developing markets." [6] The main thrust of the neoliberal reforms revolve around five key provisions:[7]

1. Investors in any field, except for all-important oil production and refining, would be allowed 100 percent ownership of Iraqi assets, full repatriation of profits, and equal legal standing with local firms.
2. Foreign banks would be welcome to establish operations immediately or to purchase equity shares in existing Iraqi financial institutions.

3. Income and corporate taxes would be capped at 15 percent.
4. Tariffs were to be reduced to a universal 5 percent rate, with none imposed on food, drugs, books, and other humanitarian imports.
5. Although no precise table was set, Iraq's state owned enterprises (SOEs), excepting the oil sector, were to be privatized (although the method of privatization was not specified).

Tax treatment in particular is classic application of the neoliberal philosophy, sprinkled with a touch of Reaganomics[8] thinking. As explained by Kamel al-Gailani, Iraqi finance minister: "Low tax rates that will help create strong incentives for future investment, employment, . . . limit the size of the public sector, simplicity in order to minimize the administrative costs of tax collection, transparency to minimize room for tax evasion and corruption, and fairness to ensure that all sectors pay reasonable shares of future taxes."[9]

The neoliberal reforms were also complemented by a series of measures designed to strengthen the country's institutions critical for the establishment of a free market economy. Most important in this regard were initiatives designed to establish a viable banking sector. The CPA's order no. 40 issued on September 19, 2003, defined the rules establishing and governing the new Iraqi banking system and, in so doing, provided a foundation for Iraq's future economic growth and development.

The provisions of the bank law were modeled significantly after the Western approach to bank regulation. They grant the Central Bank of Iraq (CBI) full legal and operational authority. Most importantly, the bank law provides the Iraqi banks with the powers and authorities associated with those of modern banks operating in today's international financial system. Another notable feature of the bank law is the absence of any mention of traditional Islamic banking practices or activities.[10]

To address many of the problems plaguing the country's commercial banks, the CPA also introduced (in September 2003) a new banking law designed to support the development of a strong, robust banking sector.[11] Under the law:

- Domestic banks are required to increase their capital to 10 billion Iraqi dinars within eighteen months. This is expected to encourage consolidation and foreign investment.
- Banks must maintain long-term capitalization consistent with international standards.
- More rigorous qualifications are set for bank licensing and for bank managers and boards of directors.
- Foreign banks may enter the market. The legislation allows for six foreign banks to enter the market over the next five years. The Central Bank of Iraq, with assistance from the CPA, will develop procedures for foreign bank licensing and for establishing representative offices.

Central Bank regulations and supervisory capabilities are being developed to support the new banking legislation. In addition a new currency, the Iraqi dinar, was introduced and the Central Bank given independence in its pursuit of a stable monetary and exchange-rate policy.

The reforms clearly incorporate much of the agenda originally laid out in the now somewhat discredited Washington Consensus.[12] The main thrust of the Washington Consensus is a set of actions that, if taken at an early stage of transition, should facilitate a smooth evolution into the world economy. It consists of elements of macroeconomic reform (liberalization, stabilization, and fiscal austerity) stressing the importance of bringing down inflation and establishing economic growth. In addition, it incorporates a number of elements of microeconomic reform (e.g., privatization, promoting FDI), as well as structural/administrative reforms (e.g., property rights, replacement of quantitative restrictions). Specifically:

- *Fiscal Discipline:* Limits to budget deficits.
- *Public Expenditure Priorities:* Redirect expenditure toward building human capital and infrastructure.

- *Tax Reform:* Broaden tax base and cut marginal tax rates.
- *Financial Liberalization:* Abolish interest rate controls.
- *Exchange Rates:* Introduce unified and competitive exchange rates.
- *Trade Liberalization:* Replace quantitative restrictions by tariffs and then reduce the tariffs over time.
- *Foreign Direct Investment:* Encourage increased international capital inflows.
- *Privatization:* Privatize state enterprises.
- *Deregulation:* Regulate only safety, environment, and financial sectors (i.e., prudential supervision).
- *Property Rights:* Introduce secure enforcement at low cost.

While progress of reform design and implementation varies considerably by categories, the September 2003 CPA reforms have little to say about the first two on the list, no doubt due to the great uncertainty surrounding oil revenues, the external debt situation, and foreign assistance. Surprisingly, the last one, property rights, a key element of the neoliberal reforms, has received less attention than one might have expected. Perhaps the intent of the CPA is to simply defer many of the specific legalities to an elected Iraqi government.

This interpretation is lent credibility by the fact that very little has been implemented or even discussed in the important areas of the augmented "Washington Consensus"—a set of complementary measures aimed at strengthening supporting institutions: (1) corporate governance, (2) anticorruption, (3) flexible labor markets, (4) World Trade Organization (WTO) agreements, (5) financial codes and standards, (6) prudent capital account opening, (7) nonintermediate exchange rate regimes, (8) independent central banks/inflation targeting, (9) social safety nets, and (10) targeted poverty reduction. Of these measures, only some initial, albeit limited, progress has occurred in no. 5 and no. 8. Iraq has applied for permission to become an observer, and ultimately a member, of the WTO.[13]

Reform Skeptics

Clearly these gaps in the neoliberal model, as applied to date in Iraq, cast considerable doubt on the extent to which the country will be able to attract investment, both domestic and foreign, to key reconstruction and development activities. Given that the attainment of higher levels of productive investment is one of the key purposes of the neoliberal reforms, serious questions arise as to the appropriateness of this approach, especially in the critical short term, when job creation and economic strength are key elements in preparing the country for a successful transition to a stable democratic government.

In fact, the neoliberal reforms have come under wide-ranging criticism both inside and outside of Iraq. Skeptics tend to fall in several distinct groups: (1) those generally sympathetic with the neoliberal approach but feel it is inappropriate in the current Iraqi environment, (2) those who have serious doubts about the privatization aspect of the reforms, (3) those who contend that that while the neoliberal approach has merits, other actions and miscalculations by the CPA have placed too much strain on the market system for it to function efficiently at this point, and (4) those who question the soundness of the whole neoliberal approach in the context of transition economies, especially those experiencing internal conflict.

Neoliberal Reforms Inappropriate at This Time

Typical reservations about neoliberal reforms[14] center around the fact that the major thrust of the reforms is to encourage larger volumes of productive investment, yet this is unlikely to occur for some time in the Iraqi context. The country will simply absorb the pain of the reforms, with none of the promised gain. Specifically:

1. Rampant insecurity is likely to indefinitely deter all but a limited number of investors, and those are likely to concentrate on quick-profit retail trade.
2. There is great uncertainty over the amounts and actual disburse-

ment of critical foreign assistance. Thus there is the likelihood of price spikes in critical areas, greatly complicating the calculation of the return on investment.

3. The various CPA orders and rules are subject to "adoption or replacement" by a future, elected Iraqi government. It is not clear that such a future regime will be as enthusiastic about free market principles as the CPA. The "rules of the game" may change a number of times before finally stabilizing. This added uncertainly only adds to investor concerns.
4. Because few of the important anticorruption checks are in place, the system is open to abuse: "It's creating riches in a crony way. We unfortunately have not departed from the old pattern where people used their personal ties, etc. in order to enrich themselves. Sharks from the old regime are taking advantage of what's going on."[15]
5. Finally, it is becoming readily apparent that the country is woefully deficient in the critical entrepreneurial culture that is able to take advantage of the opportunities created by the neoliberal reforms:

> the locals constantly complained of a lack of gasoline, often citing it as evidence of the U.S. failure to fix things. Local U.S. commanders agonized over how to obtain some—even arranging to send trucks hundreds of miles to try to buy it. Thus it came as quite a shock when they discovered that local gas stations were sitting on top of tens of thousands of gallons. Why hadn't the owners opened? They were waiting word from Baghdad, and besides, they explained, nobody had asked.[16]

Privatization Inappropriate at This Time

By far the greatest criticism of the neoliberal reforms comes from those highly skeptical of the CPA's intended privatization of Iraqi SOEs.[17] The central rationale for privatization is that, left to its devices, a privately owned enterprise is by definition more efficient that its publicly owned counterpart. This general proposition has been borne out by numerous empirical studies.[18]

Based on the experience of the transition economies, privatization has generally proved the most successful and the least controversial reform when it has been a low priority and is of a modest nature and the main emphasis has been on encouraging new start-up businesses. Thus the transition process so far has produced the best economic results in China, where, despite calls for immediate privatization, little has been accomplished, and in Poland, where privatization was under way for approximately five years before anything substantial was accomplished.[19]

The Iraqi view on privatization draws largely on the experience of the transition economies, with emphasis on the immediate dislocations associated with privatization. Ali Abdul-Amir Allawi notes that:[20]

- "This push to sell everything is the political stance of economic fundamentalism.
- "A plan based on ideology, not economics is, of course, naturally wrong.
- "By no means should we preserve all state-owned enterprises. But there are some sectors that are more natural for government involvement or rehabilitation.
- "There are many cases where state ownership of companies has worked well. Just look at Malaysia and Singapore, which have been very successful."

He also feels that using shock therapy could cause a backlash against foreign companies and, even worse, political instability. Abdu-Amir Allawi's views are of particular significance because they reflect those of many educated Iraqis. More important, they were expressed while he was the country's interim trade minister.

Abbas Alnasrawi,[21] arguably the United States's leading expert on the Iraqi economy, also falls into this group of critics of the neoliberal reforms. He opposes privatization in Iraq (at least at this time) on the grounds that it would most likely divert investment funds away from new productive investment, simply replacing local ownership with foreign ownership. In addition, he feels that because foreign capital is in a position to outbid local capital for the ownership of SOEs.

This in turn will induce the flight of Iraqi capital abroad, to the detriment of the Iraqi economy.[22]

A related issue is the manner in which even the discussion of privatization has introduced an element of uncertainty for all those associated with the country's SOEs—managers, workers, suppliers, and customers. Critics of the program contend that the effect has taken a huge tool on morale and productivity. Their point is that, given all of the other sources of insecurity plaguing the country, unnecessarily creating more by raising the privatization issue at this time is counterproductive in terms of strengthening the economy.[23]

There is also a high likelihood that if Iraqis were given the chance to vote, they would cancel the privatization program, opting instead to protect local jobs.[24] It follows that potential investors in SOEs have no real assurance that when a government is elected in late 2005, the privatization program would not be reversed and prior sales invalidated.[25] There are other problems with privatization at this time.[26]

The goal of a rapid transition to a free market in Iraq must be tempered by the fact that most of the population is dependent on state handouts. Not only is the state Iraq's biggest employer, but the Iraqi people depend on a heavily subsidized system of inputs to industry and the inexpensive goods and services that result. In privatizing Iraq's industries, one would expect businesses to become profitable by raising prices or cutting costs or staff. The outcome could be unemployment and inflation, a recipe for chaos.

There is no effective legal system, and Iraqi state institutions are still not functioning—both of which the Russian experiment showed were needed for big structural reforms.

A related issue surrounds the whole legality of the CPA's privatization program. International law obligates an occupying power to respect the laws of the occupied country. At present there is serious disagreement between the CPA and its critics over which of the neoliberal reforms would and would not be authorized by international law. Alnasrawi,[27] for one, feels it is quite clear that the order to privatize

192 SOEs cannot be considered anything but the type of action international law prohibits.

The Neoliberal Mechanisms Made Inoperative by CPA Actions

Critics of the neoliberal approach, as applied to the Iraqi situation, contend that the CPA has in effect relegated the economy to a low priority—coming in somewhere after security, de-Baathification,[28] and strict compliance with a myriad of contracting requirements. Add to this CPA errors and miscalculations, and the result has been the development of a marketplace incapable of transmitting meaningful signals to investors. A few examples illustrate the problems that have been created when CPA decisions were made without considering their economic ramifications or the manner in which these actions might be construed by Iraqis.

Markets have a hard time functioning when there is a sudden drop in demand. Yet this is what has occurred under the de-Baathification program. It is estimated that between 15,000 and 30,000 Iraqis, including teachers, university professors, engineers, and security officers, lost their positions and pensions in May 2003.[29] In addition, Ambassador Paul Bremer's decree to demobilize the army was issued at a time when 60–70 percent of the population was already unemployed. Demobilizing the army increased the ranks of the unemployed by approximately 400,000. Given an average family size of four, this means reduced purchasing power and perhaps even destitution for 1.6 million Iraqis.[30]

Similarly, markets do not perform their proper function in an environment of pervasive constraints on firm actions. Hiring practices and security concerns are an important factor behind the high unemployment rate in Iraq. Instead of hiring many Iraqis, the CPA and coalition contractors are opting for foreign laborers at a much higher cost. Said Colonel Damon Walsh, head of the CPA's Procurement Office: "We don't want to overlook Iraqis, but we want to protect ourselves. From a force-protection standpoint, Iraqis are more vulnerable to a bad guy influence."[31]

As noted above, markets underperform in situations of great uncertainty over the availability of key inputs. Despite the sense of urgency that accompanied President Bush's request for financial assistance, eight months later less than $2.8 billion of the $18.4 billion Congress provided for reconstruction had been spent. Officials overseeing the massive reconstruction job cite security problems and cumbersome contracting procedures but acknowledge they are disappointed with the pace. Uncertainty over the availability of funding has resulted in high-risk premiums being added to many contracts.

There is reason to believe that the price system will take years to operate efficiently in certain key areas of the economy. The sector most affected by this policy shift is agriculture.[32] The CPA's idea is that going to a free market system though reducing farm subsidies will force farmers to invest more of their own money as well as to have more of a stake in the outcome of their efforts. The CPA contends that the strategy that aid groups have used for years—providing farmers with subsidized supplies—is all wrong. Instead the government will now provide help in the form of technology and education and "the market will take care of the rest."[33]

The Iraqi retort is that farmers need time before being able to compete with the rest of the world. Critics have noted that "In fixing electricity, you can build a powerhouse and the problem is solved. But in agriculture you have to change the culture and you don't do that overnight."[34] A typical Iraqi farmer lamented, "We are afraid of the free economy. We don't understand it. If we grow crops, who will help us and who will buy it?"[35] This sentiment was reflected by Mohammed Abdul Hussein, director of the Kut chapter of the General Federation of Iraqi Farmers. He feels that the government's planned reduction in subsidies will force people to abandon agriculture: "If the government will not supply seeds and fertilizer, the farmers, they will not farm."[36] Compounding the problem in agriculture is the widely held view amongst Iraqis that they will not be able to compete with the foreign agribusinesses that are likely to set up operations in the country. Conspiracy theorists among them are advancing the argument that the whole point of the neoliberal reforms is to disenfranchise Iraqi farmers, making it easier for foreign exporters to capture these markets. This contention was given credibility by the fact that the CPA imported U.S. wheat after the war as it simultaneously destroyed Iraqi wheat because of its poor quality.

Finally, firms need the expertise and resources to respond to the neoliberal market signals. Unfortunately a decision was made early on to ban Iraqi SOEs from reconstruction contracts funded by U.S. taxpayers. Apparently this decision was made for both legal and philosophical reasons. The Coalition Provisional Authority was unclear on how U.S. regulations apply to a company that was owned by a rogue state that no longer exists. The CPA was also hoping to redistribute wealth and power in a country that was dominated by Saddam Hussein and his Baath Party loyalists.[37]

The problem is that practically every company of significance—including those responsible for essential public works such as the electrical grid and telephone system—was owned by the government. Similarly, de-Baathification, pushed to the extreme, could backfire because the skilled technical and administrative people needed to rebuild Iraq turn out, inevitably, to have been party members.[38] In this context, all that neoliberal price signals do is create jobs and income for foreign workers and companies, hardly the foundation for a viable and dynamic domestic economy.

In retrospect, de-Baathification was a costly overreaction that eroded Iraq's security and sent the economy into decline. Apparently the CPA's intention was to bar around 20,000 members of Saddam Hussein's Baath Party from government jobs. Through an error of miscalculation, by the spring of 2004 nearly 400,000 Baathists[39] had been relieved of their jobs. As the enormity of the situation became apparent, the CPA began slowly reversing the de-Baathification program, especially for lower-level party members.[40] Unfortunately, the economic toll of de-Baathification to both aggregate supply and demand may take years to overcome. The lost good will of large segments of the educated Iraqi population may never be recouped.

The Neoliberal Reforms, Especially Shock Therapy, Are Inappropriate for Transition Economies

Although many economists, including Nobel laureate Joseph Stiglitz,[41] are highly skeptical of applying the neoliberal program at the start of market transformation, Stiglitz notes that transition economies face two broad alternatives in moving toward a market economy. One choice is shock therapy—quick privatization of state-owned assets and abrupt liberalization of trade policies and capital flows—while the other is gradual market liberalization to allow for the rule of law to be established.[42]

To Stiglitz the historical record speaks for itself: shock therapy, at least at the level of microeconomic reforms, failed. However, those countries (Hungary, Poland, and Slovenia) that took the gradualist approach to privatization and the reconstruction of institutional infrastructure "managed their transitions far better than those that tried to leapfrog into a laissez-fair economy. Shock therapy countries saw incomes plunge and poverty soar. Social indicators, such as life expectancy, mirrored the dismal GDP numbers."[43] As for Iraq, Stiglitz notes that the transition economy lessons, together with the ongoing occupation,

> make quick privatization particularly problematic. The low prices that the privatized assets are likely to fetch will create the sense of an illegitimate sell-off foisted on the country by the occupiers and their collaborators. Without legitimacy, any purchaser will worry about the security of his property rights, which will contribute to even lower prices. Furthermore, those buying privatized assets may then be reluctant to invest in them; instead, as happened elsewhere, their efforts may be directed more at asset stripping than at wealth creation.[44]

No doubt critics of the Stiglitz[45] position would contend that success or failure of a transition economy can be traced to a multitude of factors, with no single factor (e.g., shock therapy) capable of accounting for all the observed patterns of growth and development. For example, Berglof and Bolton have observed that transition economies appear prone to a pattern of cumulative circular phenomena where things tend to get better or worse instead of reaching a stable equilibrium. Because of this tendency, a growing and deepening divide has opened up between transition economies where economic development has taken off and those caught in a vicious cycle of institutional backwardness and macroeconomic instability. This gap or divide is visible in almost every measure of economic performance: GDP growth, investment, government finances growth, income distribution, general institutional infrastructure, and increasingly in measures of financial development.[46]

Berglof and Bolton suggest that even in the countries that have made it across the divide, like the Czech Republic, Hungary, Poland, Slovenia, and the Baltic states of Estonia, Latvia, and Lithuania, a remarkable diversity of policies and financial development has been pursued. Clearly, shock therapy or any other set economic agenda is not a necessary and sufficient condition for success or failure.

Assessment

The neoliberal program in Iraq assumes that free markets and greater integration into the world economy should progressively lead to macroeconomic stability, reduced government intervention, a dynamic private sector, and prosperity. Deregulated banking, privatization, and eventually the development of a functioning stock exchange should lay the foundation for competitive free markets. Eventual membership in the WTO promises to reduce trade barriers, free circulation of capital, and strengthen civil society. While many currently inefficient firms will no doubt disappear, resources will shift to those areas in which the country has a comparative advantage. The end result will be high sustained rates of growth and employment generation.

In part, some of the difficulties encountered by the neoliberal approach in Iraq stem from the way it is perceived. To noneconomists, neoliberalism does not appear to form a coherent strategy aimed at job creation and economic recovery. Instead, the approach conveys the impression that most important decisions concerning the allocation of resources are simply left to (capricious) market chance, with resulting unchecked expenditures on nonessential items, increasing disparity of incomes, and regional imbalances. If economic recovery and growth occur, it is more by chance than design. Unfortunately, the absence of a marked recovery or growth months after the introduction of the reforms only confirms the skeptics' worst suspicions:

> In Iraq, without economic vision and realistic policies, the goodwill of spending efforts may end in chronic structural problems, high inflation, leading to political and social disturbances. As a matter of fact, since the war ended, the implemented economic measures and the actual expenditures have neither increased domestic production and productive employment nor improved the living standards of the majority of the people. Moreover, the main structural problems have not eased.[47]

In addition, to many Iraqis the failure of the neoliberal approach to deliver economically has lent credence to the conspiracy theory that neoliberalism is simply a mechanism introduced to shift the country's resources out of their hands and into the control of foreign interests.

Objective critics of Iraq's neoliberal reforms contend that the market conditions upon which it is based just do not exist in the country at this time.[48] In particular, a culture of responding to market forces will have to be nurtured and developed. Until this occurs, the neoliberal program will continue to yield only higher rates of unemployment and resentment. Advocates contend that the state has only to be removed from the sphere of the economy to see a vibrant free market appear. While experience of the transition economies suggests that the issues surrounding neoliberalism and shock therapy are never this clear-cut, in Iraq's case it is apparent that all the uncertainties associated with shock therapy in general, and with the privatization process in particular, are reason alone to rule out much hope for this strategy's success, at least in the near future.

If not neoliberalism in its pure form, then what for Iraq? Dani Rodrik, one of the more perceptive contemporary development economists, provides several broad guidelines, based on the historical record of transition economies to date:

Transitions to high economic growth are typically sparked by a rela-

tively narrow range of policy changes and institutional reforms. In his opinion, in none of the success stories do we have the ambitious reforms recommended by the augmented Washington Consensus playing an important role at the outset or as a prerequisite.

The policy changes that initiate growth in transitions typically combine elements of orthodoxy with unconventional institutional innovations.

Institutional innovations do not travel well. What works in one setting often does not work in another. Gradualism (as opposed to shock therapy) worked well in India, but not the Ukraine. Clearly, successful reforms are those that package sound economic principles around local capabilities, constraints, and opportunities. A major failure of the CPA program to date is not involving the Iraqis more in the design, implementation, and operation of a viable economic strategy.[49]

The real issue is whether some aspects of the neoliberal program, themselves controversial, can be made to work as part of a alternative, comprehensive program of reconstruction and growth—something along the lines of Berglof and Bolton's virtuous cycle, perhaps building on the banking reforms noted above. For its part, the unrest in Iraq in late 2003–early 2004 has caused the CPA to back away from two of its more ambitious initiatives, privatization and free market reforms[50]—the core of the neoliberal reforms.

> The new approach, U.S. diplomats said, calls into question the prospects for initiatives touted by conservative strategists to fashion Iraq into a secular, pluralistic, market-driven nation. While the diplomats maintain those goals are still attainable. . . . ideology has become subordinate to the schedule.[51]

Does this mark the end to neoliberalism in Iraq?

Notes

1. "Let's All Go to the Yard Sale: Iraq's Economic Liberalization," *Economist*, September 27, 2003, 62.
2. Quoted in Thomas Crampton, "Iraqi Official Warns of Fast Economic Shift," *International Herald Tribune*, October 14, 2003, 13.
3. For a description of neoliberalism and an initial assessment of its applicabil-

ity to the Iraqi situation, see Robert Looney, "Iraq's Economic Transition: The Neoliberal Model and Its Role," *Middle East Journal* 57, no. 4 (Autumn 2003): 568–87.

4. Ibid., p. 586.

5. Samson Mulugeta, "Reform Concerns: Changes Have Iraqi Workers Nervous," *Newsday,* December 14, 2003 (http://uslaboragainstwar.org/article.php?id=2577).

6. "Let's All Go to the Yard Sale," 62.

7. See "Iraqi Finance Minister Kamel al-Gailani," *Middle East Economic Digest,* September 26, 2004, 15, for a detailed list of the provisions.

8. See Robert Looney, "Reaganomics," in R.J. Barry Jones, *Routledge Encyclopedia of International Political Economy,* vol. 3 (London: Routledge, 2001), pp. 1310–13.

9. Quoted in "Baghdad's Laffer Curve," *Wall Street Journal,* September 22, 2004, A18.

10. Robert Looney, "Banking on Baghdad: Financial Challenges in Postwar Iraq," *Strategic Insights,* May 2004 (www.ccc.nps.navy.mil/si/2004/may/looneyMay04.asp).

11. U.S. Senate Committee on Banking, Housing, and Urban Affairs Committee, Subcommittee on International Trade and Finance, *Financial Reconstruction in Iraq,* testimony by John B. Taylor, 108th Congress, 2d session, February 11, 2004.

12. Comprehensive surveys and critiques of the Washington Consensus can be found in Kaushik Basu, "Globalization and the Politics of International Finance: The Stiglitz Verdict," *Journal of Economic Literature* 41, no. 3 (September 2003): 885–99, and Dani Rodrik, "Understanding Policy Reform," *Journal of Economic Literature* (March 1996): 9–41.

13. Naomi Koppel, "Iraq Takes First Steps Toward WTO Membership, but May Have Acted Too Early," Associated Press, January 26, 2004.

14. "Let's All Go the Yard Sale," 62.

15. Essam al-Khafaji, director of Revenue Watch, quoted in Emad Mekay, "U.S. Claims Success in Setting Up a Market Economy," *Global Information Network,* February 12, 2004, p. 1.

16. Adam Piore, "How Not to Build a Nation: We Lacked Even a Basic Understanding of Iraq," *Newsweek,* July 28, 2003, 11.

17. Abbas Alnasrawi, "The Case Against Privatization—Iraq," *Middle East Economic Survey,* October 11, 2003 (www.menafn.com/qn_news_story_s.asp?StoryId=33849).

18. Summarized in William Megginson and Jeffrey Netter, "From State to Market: A Survey of Empirical Studies on Privatization," *Journal of Economic Literature* 39, no. 2 (June 2001): 321–89.

19. Marshall Goldman, "The Pitfalls of Russian Privatization," *Challenge* 40, no. 3 (May/June 1997): 35.

20. Thomas Crampton, "Iraq Official Warns on Fast Economic Shift," *International Herald Tribune,* October 14, 2003, 13.

21. Author of six major books on the Iraqi economy. See in particular his *Iraq's Burdens: Oil Sanctions, and Underdevelopment* (Westport, CT: Greenwood Press, 2002).

22. Alnasrawi, "The Case Against Privatization—Iraq."

23. Ibid.

24. Naomi Klein, "Of Course the White House Fears Free Elections in Iraq," *Guardian,* January 24, 2004, 18.

25. Ibid.

26. "Iraqi Economy: Say No to Privatization," *Guardian,* September 23, 2003, 23.

27. Alnasrawi, "The Case Against Privatization—Iraq." Alnasrawi also believes that many other aspects of the neoliberal reforms are illegal under international law.

28. For an excellent rationale for the program, see Douglas Porch, "Germany, Japan and the 'De-Baathification' of Iraq," *Strategic Insights,* March 7, 2003 (www.ccc.nps.navy.mil/si/mar03/middleEast3.asp).

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31. Jonathan Reingold, "Jobless Recovery: By Outsourcing Labor, U.S. Planners of Iraqi 'Democracy' Do Not Include Unions," *In These Times,* April 21, 2004 (www.occupationwatch.org/article.php?id=4299).

32. This section draws heavily on Ariana Eunjung Cha, "Iraqis Face Tough Transition to Market Based Agriculture," *Washington Post,* January 22, 2004, A1.

33. Ibid.

34. Ibid.

35. Ibid.

36. Ibid.

37. Ibid.

38. Jeff Madrick, "Looking Beyond Free Trade as a Solution to Helping the Developing World," *New York Times,* June 12, 2003, C2.

39. "Help from the Baathists," *Christian Science Monitor,* May 6, 2004, 8.

40. Paul Richter, "Officials Rethink Ban on Baathists," *Los Angeles Times,* April 22, 2004, A1.

41. See his *Globalization and Its Discontents* (New York: Norton, 2002).

42. Joseph Stiglitz, "Iraq's Next Shock Will Be Shock Therapy" *Znet,* March 17, 2004 (www.zmag.org/content/showarticle.cfm?SectionID=13&ItemID=5164/).

43. Ibid.

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